

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

941

A REVIEW OF THE
DEPARTMENT OF EDUCATION'S
PROCEDURES FOR ALLOCATING
CHILD CARE EXPANSION FUNDS

FEBRUARY 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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March 10, 1980

941

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning the process for allocating child care expansion funds.

The report finds that improvements in the existing procedures are necessary. Specifically, a more comprehensive request for proposal should be provided to applicants, and procedures to evaluate the cost-effectiveness of programs should be developed. Additionally, an attempt should be made to award any future expansion funds in a more timely manner.

The auditors are Eugene T. Potter and Joan S. Bissell, Audit Managers; Robert T. O'Neill; Karen A. Nelson; and Jacques M. Barber.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
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SUMMARY

The Department of Education's Office of Child Development (OCD) administers a variety of child care programs. The 1979-80 Budget Act provided approximately \$124.7 million in child care funding, approximately \$4.4 million of which was designated for expansion of child care programs.

Our review of the Department of Education's allocation of child care expansion funds indicated that OCD needs to improve existing allocation procedures. Although OCD implemented an extensive process for reviewing applications for child care expansion funds, it did not provide applicants a comprehensive request for proposal (RFP). In addition, it did not develop adequate cost standards or use all available cost information in evaluating proposals. Additionally, OCD evaluated applications which did not meet the RFP specifications. Further, expansion funds could have been awarded in a more timely manner.

As a result of these procedural deficiencies, local agencies were unaware of all funding criteria when designing program proposals, and some local agencies and OCD incurred unnecessary expenses. Also OCD had no assurance that funds were awarded to the most cost-effective programs. In addition, because of the time required to review applicants and award funding, a smaller portion of expansion funds were allocated than initially planned.

To ensure that agencies are fully aware of expansion funding specifications, we recommend that OCD clearly identify all funding priorities, rating criteria, and agency funding limitations in future RFPs for child care expansion funds.

We also recommend that OCD improve its method for evaluating child care program costs by developing a formal and uniform cost analysis procedure for use in reviewing applications for expansion funds.

In addition, the Legislature may wish to clarify the importance of cost-effectiveness as a priority in awarding any future expansion funds.

INTRODUCTION

In response to Item 328 of the 1979-80 Budget Act and at the direction of the Joint Legislative Audit Committee, we have reviewed the State Department of Education's procedures for allocating child care expansion funds. This review was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

Background

The Department of Education's Office of Child Development (OCD) administers a variety of child care programs, including general child development, alternative child care, campus child development, migrant child development, school-age parenting and infant development, resource and referral programs, and county welfare department contract programs. Appendix C provides a brief description of each of these child development programs.

The 1979-80 Budget Act provided approximately \$124.7 million to be allocated to eligible child development agencies and programs. The act provided that \$4,455,701 of these funds be used for expansion of child care programs on an annualized basis. Subsequent legislation, Chapter 974, Statutes of 1979, mandated that up to \$192,000 of these funds be used for an

intergenerational child care program, one which brings older people together with children. The Budget Act specified that in allocating expansion funds consideration be given to five general areas: (1) type of program, (2) age of children served, (3) geographic location, (4) type of provider, and (5) other funding requirements. Appendix A details how OCD addressed the statutory requirements for allocating expansion funds.

To solicit applications from potential provider agencies, the Office of Child Development distributed a request for proposal (RFP) to child care agencies throughout the State. The RFP included a brief description of the Budget Act directives, general application information, a list of applicable child care statutory requirements and guidelines, and scoring criteria to be used in rating proposals. The RFP required the provider agencies to include both program and budget information in their applications.

Each application returned was scored twice by raters representing various child care organizations and state agencies. If the application was rated satisfactory, two OCD consultants and a local child care representative visited the agency to evaluate program management, site and facility, and program characteristics and budget. In all, 306 site visits were made. For each agency a composite score was developed,

based on the review of the application and the site visit. Funding was then distributed among the highest scoring agencies in each program category, with the exception of resource and referral programs.

Scope of Review

During our review, we evaluated the Department of Education's efforts to conform with the specifications of the 1979-80 Budget Act. We analyzed the policies and procedures established by OCD to allocate expansion funds to designated program categories and target groups and to address the other Budget Act requirements. In addition, we examined a sample of applicant case files and interviewed personnel involved in administering the expansion funding. We also analyzed the distribution of expansion funds to new and existing agencies and to rural, suburban, and urban agencies. The analysis of this distribution is presented in Appendix B.

The allocation process used by the Office of Child Development for 1979-80 expansion funds involved an extensive and revised application review. This required a significant effort on the part of OCD's staff and was intended to assure a fair and equitable funding process. Our review demonstrated the substantial effort made by OCD to refine the process. We

nevertheless have identified certain areas which need further refinement and improvement before any forthcoming expansion funds are awarded. These are discussed in the next section of this report.

AUDIT RESULTS

IMPROVEMENTS NEEDED IN THE PROCEDURES FOR ALLOCATING CHILD CARE EXPANSION FUNDS

The Office of Child Development (OCD) needs to improve its procedures for allocating child care expansion funds. Although OCD implemented an extensive process for soliciting and reviewing applications for this year's child care expansion funds, it did not provide applicants a comprehensive request for proposal (RFP) and did not develop review procedures to adequately evaluate the cost-effectiveness of programs. Additionally, OCD evaluated applications which did not meet the RFP specifications. Further, expansion funds could have been awarded in a more timely manner.

As a result of the above, local agencies were unaware of all funding criteria when designing program proposals, and some local agencies and OCD incurred unnecessary expenses. Also, OCD had no assurance that funds were awarded to the most cost-effective programs or that proposals were evaluated equivalently. Finally, several months were required to review applications and award funding, and consequently a smaller portion of expansion funds were allocated than initially planned.

State Requirements for Soliciting
and Reviewing Applications for Funds

The State Administrative Manual (SAM) specifies requirements for administering and reviewing RFPs issued by state agencies.* According to the manual, an RFP must be as precise as possible to ensure that all proposals are accomplishing the same goal. Information regarding the criteria which will be used by the state agency in rating proposals must be included. In addition, SAM specifies that factors which could affect the evaluation and selection of proposals may not be changed or added after the RFP has been distributed.

The SAM also requires agencies to employ an objective evaluation procedure to determine which applicants have complied with the RFP and to whom the contract should be awarded. Before evaluating proposals, a state agency must develop and finalize a comprehensive evaluation plan. The plan must specify all factors which are to be considered including cost criteria. The plan must also ensure that all proposals are evaluated fairly and equitably.

* State Administrative Manual, Sections 1210 and 1213.

Item 328 of the 1979-80 Budget Act also specified that in awarding expansion funding, the Department of Education assure that child care services are delivered in a cost-effective manner. Section 8243 of the Education Code further specifies that programs for child development services are to be provided at the minimum cost possible consistent with the required quality of service and the specific needs of children.

RFP Did Not Include
All Funding Criteria

The RFP issued by the Office of Child Development did not contain complete information regarding the criteria to be used to evaluate applications or award funds. This happened because OCD did not develop and identify all funding criteria until after the RFPs had been distributed.

OCD's request for proposal specified amounts of expansion funding for particular programs and age groups as designated in Item 328 of the 1979-80 Budget Act. The RFP also specified funding priorities based upon Budget Act provisions regarding geographic locations and types of providers. Finally, the RFP requested information on the cost-effectiveness of the proposed program. The RFP was issued in early September, and responses were due by September 27, 1979. However, after the application response deadline, OCD developed additional funding criteria.

For example, after the RFP had been issued, OCD decided to impose a \$100,000 funding limit for any one agency. The decision was made, according to OCD, in response to the substantial number and amount of funding requests received. The effect of a late decision of this nature can be seen in the following example. One agency selected for funding declined to accept a contract. The agency had requested \$120,950 and was ranked number three in its program category. OCD offered the agency \$99,710, which the agency declined because it could not deliver the program adequately with that amount. Had the \$100,000 limitation been stated in the RFP, the agency might have developed a proposal which could have been delivered with that amount. Additionally, had agencies been aware of the funding limitation, some might have opted not to submit proposals. This would have saved the agencies the time and expense of applying for expansion funds and would have reduced OCD's application review workload. In addition, knowledge of the \$100,000 limit may have encouraged some smaller agencies to submit proposals.

OCD also made a decision, after proposals were received, to fund all migrant infant care centers which had received state capital outlay funds for construction or rehabilitation in the preceding fiscal year. This decision was made by OCD because it wished to assure use of migrant centers which had received capital outlay funds. Our review indicated

that if the funding criteria for migrant programs for infants had been fully defined in advance, programs that did not receive capital outlay funds the previous fiscal year may not have applied for expansion funding.

Finally, OCD also decided to fund resource and referral (R & R) agencies only in areas which did not already have subsidized R & R agencies. This decision was made in an attempt to direct resources to rural areas and other areas having relatively limited child care resources. OCD then imposed a funding limit of \$50,000 per R & R agency. Because of these decisions, 16 applicants for R & R funding in unserved areas received contracts; many of them had lower rankings than the remaining 27 R & R agencies which were eliminated because they were in areas already served. Our analysis indicated that if the "unserved R & R area" criterion had been defined in the RFP, as many as half the applicants might not have applied. Again, this would have saved them the effort of preparing applications and would have reduced the number of applications that had to be evaluated by OCD.

Insufficient Evaluation Procedures

OCD's procedures for evaluating applications for child care expansion funds were insufficient because (1) OCD did not develop standards for determining cost-effectiveness

and (2) OCD evaluated applications which did not meet the RFP specifications. Because of these problems, there was no assurance that funds were awarded to the most cost-effective programs or that proposals were evaluated equivalently.

Need for Formal
Cost Standards

Although OCD required applicants to provide information on a few items related to program cost, OCD did not issue or develop a formal set of cost standards for analyzing this information or for rating applicants. Consequently, some high cost programs were funded which rated only marginally higher than lower cost programs which were not funded.

The criteria used for scoring applications were general in nature, and raters were not provided with detailed instructions for reviewing and scoring program budget information. OCD's rating criteria did not define ranges of a program's total budget which should be devoted to certain functions (such as administration) or ranges of costs which were appropriate for such items as staff salaries. Without specific cost standards, raters could not accurately analyze or compare programs' cost-effectiveness.

OCD did not adequately address programs' cost-effectiveness because of a lack of formal cost standards and constraints of the current reimbursement system. OCD officials stated that their procedures did not include a detailed review of applicants' proposed budgets or cost of services because funding awards are determined through a negotiation process rather than by amounts requested in the applications. The negotiation process determines the contract elements including the total dollars to be awarded, level of average daily enrollment, average daily hours of service per child, and the number of days the facility shall operate.

OCD's reimbursement mechanism allows an agency to be funded up to a maximum reimbursement rate regardless of any proposed cost-efficiencies represented in their applications. Actual reimbursement for services may not exceed an agency's actual cost up to the SDE established maximum reimbursement rate. Two school districts and one community college program were permitted to exceed this rate pursuant to budget bill language contained in Chapter 259, Item 328 of Statutes of 1979.

Furthermore, our review indicated that the rating process only generally considered the amount of outside resources an applicant might obtain. Applicants were awarded points if they indicated use of outside resources; however, the

amount of such resources was not considered. For example, the rating process did not distinguish between agencies that would attempt to secure \$100 versus \$1,000 of outside resources. Our sample revealed that the funded and unfunded agencies' planned attempts to secure outside resources varied substantially. The projected use of outside resources ranged from none to 76 percent of the total budget. This factor is important because a recent study of the Alternative Child Care Program showed that the degree of use of such resources (in particular, donated resources) was a significant factor characterizing economical child care programs.*

Because formal cost standards were not developed, there was no assurance that funds were awarded to the most cost-effective programs. We reviewed a sample of applications for general child care infant programs and made cost comparisons between funded and nonfunded programs to determine the relative economy of programs awarded funding. General child care infant programs were selected because this category received the largest allocation of expansion funds of any program type, \$1,009,211 of the \$4,263,701 of expansion funds (on an annual basis). We selected funded and nonfunded agencies of similar size and target population which were within 14 percent of one another in total ratings to compare agency costs.

* Comparative Evaluation of AB 3059 Alternative Child Care Programs: Summary Report, Abt Associates, Inc., Cambridge, Mass., 1979.

Table 1 below shows the results of our cost comparison. It includes a comparison of proposed funding per average daily enrollment (ADE) for the full year of program operation for funded and nonfunded agencies.

TABLE 1

COMPARISON OF EXPANSION FUNDING REQUESTS
FOR FUNDED AND NONFUNDED GENERAL
CHILD CARE INFANT PROGRAMS

<u>Funded Agencies</u>	<u>Total Rating Points</u>	<u>Average Funding Requested</u>		<u>Average Funding Awarded</u>	
		<u>Per ADE</u>	<u>Per Child Per Day</u>	<u>PER ADE</u>	<u>Per Child Per Day</u>
1	970	\$3,967	\$18.03	\$3,967	\$15.87
2	954	\$4,157	\$16.43	\$3,273	\$12.94
3	939	\$2,687	\$10.58	\$2,646	\$10.58
4	927	\$5,714	\$22.95	\$2,604	\$10.42
5	927	\$3,470	\$14.46	\$3,454	\$14.39
6	916	\$8,142	\$37.16	\$6,667	\$26.67
7	901	\$2,987	\$11.95	\$2,987	\$11.95
8	893	\$2,989	\$11.95	\$2,989	\$11.95
<u>Nonfunded Agencies</u>					
9	869	\$5,980	\$23.92	<u>Not Applicable</u>	
10	867	\$5,588	\$22.35		
11	859	\$4,415	\$17.66		
12	859	\$4,490	\$18.18		
13	845	\$4,843	\$19.37		
14	845	\$6,215	\$24.86		
15	844	\$5,738	\$22.95		
16	838	\$5,858	\$23.43		

We found that those programs which received funding generally had requested lower average funding per ADE than their nonfunded counterparts. However, there were some instances where funded agencies had only marginally higher total ratings than nonfunded agencies; but these funded agencies had markedly higher proposed funding requests per ADE. We used the average requested funding per child per day for funded and nonfunded agencies as a means of comparison. For example, Table 1 shows that one funded agency (6) had an average requested daily cost per child which was nearly twice as high as each of three nonfunded agencies (11, 12, and 13), but had a total rating which was no more than approximately 8 percent higher.

Our analysis also indicated variation within budgets of funded agencies. For example, in the sample of general infant programs we examined, employee costs represented from 14 percent to 88 percent of the total agency budget. (The overall average for employee costs was 67 percent.) Although OCD did examine agency budgets in the application and field review process, it did not establish cost standards for particular budget items. Nor did it fully use available budget information as a basis for selecting agencies or controlling program costs.

OCD officials cited various reasons for not conducting a more in-depth analysis of the factors pertaining to the cost-effectiveness of programs applying for child care expansion funds. First, OCD officials stated that Item 328 of the 1979-80 Budget Act established a number of funding criteria, including responding to local needs, resources, and diversity, but did not specify priorities for these criteria. Cost-effectiveness was only one of many considerations that had to be met. Related to this, until there is a clear legislative mandate to reduce high-cost programs to the level of statewide average costs, OCD faces difficulties in exerting cost control or denying funding to such programs. Second, since local agencies have varying access to and ability to obtain resources, OCD determined it was unfair to penalize programs which indicated that alternative funding or external resources were not available. Additionally, OCD cited some past difficulties experienced by child care agencies with low reimbursement rates and funded through the Alternative Child Care Program (AB 3059). OCD officials stated that some of the low cost programs subsequently required additional state funds or had other problems in providing services because they did not request sufficient funding to operate satisfactorily.

Applications Evaluated Which Did Not Adhere to RFP Specifications

OCD did not conform with the State Administrative Manual requirement that does not allow proposals for funds to be considered if they do not fully meet the specifications of an RFP. OCD consultants had to adjust some applications to meet RFP specifications before they could be evaluated. As a result, there was no assurance that the adjusted applications reflected the precise information the agencies intended or that the agencies could deliver the proposed program considering the adjustments.

For example, the RFP specified that the agency submit a separate application for each proposed type of program for a particular age group and each method of delivery. However, some applicants did not comply with these instructions, and OCD allowed their applications to be evaluated. Since these individual applications proposed multiple programs or delivery systems, OCD consultants had to determine which portions of an application applied to a particular program. This changed these proposals from the form in which they were submitted. Although in some cases the applicant was contacted, generally the changes were based on the individual consultant's judgment. Consequently, there was no assurance that the resulting proposals were evaluated as the agency intended them or that the programs could be provided in accordance with the consultant's changes.

As another example, the RFP also specifically requested agencies to submit a budget for the 1979-80 fiscal year. However, OCD allowed applications to be evaluated which contained budgets based on time periods other than the specified 12-month period. Because of this decision, the OCD consultants had to adjust some budgets in the applications to reflect 12-month budgets, effectively changing the applications. The adjustments again were generally based on the individual consultant's judgment, although some agencies were contacted during the process. There was no assurance that the consultant's judgment resulted in a budget similar to that which an agency would have submitted for individual programs, or that the consultant's changes reflected the true cost of the proposed program.

In conclusion, applications were evaluated which did not adhere to RFP specifications. Because these applications were adjusted, often without consulting the agency, there was no assurance that the applications reflected accurate information.

Lengthy Time Period
for Award of Funds

The process used by OCD to allocate child care expansion funds involved extensive application review and significant effort by OCD's staff. OCD had originally established a target date of November 1 for allocation of expansions funds, but actually commenced funding to agencies on December 1, 1979. Because of the several months involved in awarding funds, a smaller portion of expansion dollars were allocated than initially planned.

The Governor approved the 1979-80 Budget Act containing the provision for child care expansion funds on July 13, 1979. OCD distributed RFPs in September and notified successful applicants on November 30. The 1979-80 Budget Act required that the appropriation of expansion funds represent a pro rata share of full year funding. Since funding did not actually commence until December 1979, only slightly more than half of the available funds could be awarded. Of the \$4.4 million in available expansion funds, nearly \$1.7 million was not allocated; however, approximately \$350,000 of this was attributed to the one month delay.

CONCLUSION

OCD's procedures for allocating child care expansion funds need improvement. The RFP issued by the Office of Child Development did not include all funding criteria. OCD did not adequately address cost-effectiveness because of a lack of formal cost standards and constraints of the current reimbursement system. Additionally, some proposals were evaluated that did not technically adhere to RFP specifications. Furthermore, OCD could have awarded expansion funds in a more timely manner. As a result of the several months required to administer the application process, fewer expansion dollars were allocated than originally projected.


RECOMMENDATION

We recommend that OCD clearly identify all funding priorities, rating criteria, and agency funding limitations in future RFPs for child care expansion funds.

We also recommend that OCD establish formal cost standards for evaluating child care programs and include a formal and uniform cost analysis procedure within future reviews of applications for child care contracts.

In view of the confusion regarding the priority to be placed on cost-effectiveness in relation to other considerations in awarding 1979-80 expansion funds, the Legislature may wish to clarify the emphasis to be placed on this priority in any future appropriations for expansion of child care and development programs.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: February 29, 1980

Staff: Eugene T. Potter, Audit Manager
Joan S. Bissell, Audit Manager
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Karen A. Nelson
Jacques M. Barber



STATE OF CALIFORNIA
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February 29, 1980

Thomas W. Hayes
Auditor General
California Legislature
925 L Street, Suite 750
Sacramento, CA 95814

Dear Mr. Hayes:

The State Department of Education has reviewed the draft report, A Review of the Department of Education's Procedures for Allocating Child Care Expansion Funds, dated February 20, 1980, and appreciates the opportunity to respond.

The Department of Education concurs with the finding that significant improvements have been made in the process for allocating expansion funds; yet, a further refinement of the process is desirable and can be achieved.

It is important to differentiate the child development expansion process by application between a request for proposal process typically used in many government purchases of products or services. A request for proposal is characterized by highly defined specifications in order to allow cost to be the critical factor. There are a number of highly significant variables in soliciting expansion of child development programs and services which cannot be controlled, e.g., local agency capacity to initiate an application, local need, local cost for personnel and facilities, variations in supply of personnel or facilities. Child care is a human service program which does not fit into a formal request for proposal process. However, because this report uses the request for proposal reference, the Office of Child Development response will use that context.

The report identifies the following issues:

1. OCD did not provide applicants a comprehensive request for proposal (RFP).
2. OCD did not develop adequate costs standards or use all available cost information in evaluating proposals.

3. OCD evaluated proposals which did not meet specifications for the RFP.
4. Expansion funds could have been awarded in a more timely manner.

The Department's response to each of the above issues are:

1. "The RFP issued by the Office of Child Development did not contain complete information regarding the criteria to be used to evaluate applications or award funds. This happened because OCD did not develop and identify all funding criteria until after the RFP's had been distributed."

Response: OCD made four administrative decisions with respect to funding after the RFP's had been distributed. The first was to decrease the proportion of funding to be allocated for General Child Care and increase the amounts designated for all other program types beyond the figures that would represent their "proportionate shares."

The second decision was to place a \$100,000 maximum on the amount of funds any one agency could receive. The receipt of applications which requested \$54 million with only \$4 million available, gave us rationale for this decision.

The third decision was to fund only Resource and Referral applications from rural and unserved areas throughout the state, and the fourth was to bring all Resource and Referral agencies that are currently funded below \$50,000 up to a \$50,000 funding level.

These four decisions constituted the incompleteness of the information contained in the RFP.

The original distribution of funds were estimates and the submitted applications were adequately reflected where the distribution of funds should be, in our opinion. These decisions were not, nor should they have been made before the fact, because there was no way of anticipating the numbers of applications that would be submitted, the program types they would represent, the total dollar amount that would be requested, or the degree to which applications would address rural or other underserved areas.

Had OCD made such decisions before the fact, and included this information in the RFP, it would have left no room for the application of administrative judgment on the basis of an assessment of applications received.

In the future, OCD will, to the fullest extent possible, include all funding criteria in the RFP, and will advise applicants of the possibility that subsequent decisions may require some administrative adjustments.

2. "Although OCD required applicants to provide information on a few items related to program cost, OCD did not issue or develop a formal set of cost standards for analyzing this information or for rating applicants. Consequently, some high cost programs were funded which rated only marginally higher than lower cost programs which were not funded."

Response: Each budget was reviewed for its adequacy to support the proposed program. A separate review as part of the application process occurred and subsequently an on-site review of each budget was done prior to the approval of the application. The current child care reimbursement system allows all programs, except Alternative Child Care programs, to claim reimbursement up to the maximum reimbursement rate as specified in the Education Code.

OCD recognizes the need for cost standards, but it does not evaluate each applicant's proposed budget as a part of the competitive process. In response to the Budget Act language directing OCD to address cost-effectiveness in its rating process, OCD did include questions in the RFP and field review processes regarding the identification and proposed utilization of community resources. The rating of these items made a significant impact on each agency's total score.

OCD is concerned, however, about placing too much emphasis in the selection process on community resources, because all child care agencies do not have equal access to such resources. In fact, the greatest need for child care services is often in communities with the most limited community resources.

Finally, OCD considered cost-effectiveness as one among a number of funding criteria stipulated in the Budget Act language. It is our belief that if the Legislature had intended that OCD fund only the lowest-cost programs, the Budget Act language would have reflected this in the priority of selection criteria.

3. "OCD allowed proposals to be considered which did not meet the RFP specifications. OCD consultants had to adjust these applications to meet RFP specifications before they could be evaluated. As a result, there was no assurance that the adjusted application reflected the information the agency intended or that the agency could deliver the proposed program considering the adjustments. Therefore, there was also no assurance that all applications were evaluated equitably.

Response: A number of the applicants did not adhere to two of the RFP specifications. The specifications included these directions: (1) to submit a separate application to each proposed age range, and (2) to submit a full year proposed budget. Both of these directives represented changes from instructions in previous RFP's. In retrospect, we realize that the instructions for these specifications were not as clear to the reader as they might have been.

However, we feel that our decision to accept the application not meeting specifications even though they did not meet the RFP specification for separate applications, was justified in that the substance rather than the form of the application was subject to review, evaluation, and scoring.

4. "The process used by OCD to allocate child care expansion funds involved extensive application review and significant effort by OCD's staff. OCD had originally established a target date of November 1, for allocation of expansion funds, but actually commenced funding to agencies on December 1, 1979. Because of the several months involved in awarding funds, a smaller portion of expansion dollars were allocated than initially planned."

Response: The very complex funding matrix specified in the Budget Act language (i.e., funding across program types according to their proportionate share or specified amount and according to specific dollar amounts for each age range as well as addressing needs in rural and underserved areas) delayed the selection process beyond the initial time-line. The complex task of making sure each application was adequately reviewed before funding and the on-site process of review prior to funding only delayed the awarding of the applications by 30 days. It is our opinion that this one-month delay, although not desirable, may result in agencies being funded who can thoroughly sustain the management of the program.

The Auditor General's report contained the following recommendations:

1. "We recommend that OCD clearly identify all funding priorities, rating criteria and agency funding limitations in future RFP's for child care expansion funds."

Response: In the future, all funding priorities, rating criteria and agency limitations will be identified in RFP's for child care expansion funds. However, in doing so, we will retain as much flexibility as the Legislature will permit us to exercise judgment that may, in fact, be in the best interests of the California Subsidized Child Care Programs.

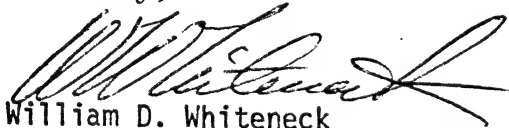
2. "We also recommend that OCD establish formal costs standards for evaluating child care costs and include a formal and informal cost analysis procedure within future reviews of applications for child care contracts."

OCD has considered the development of cost standards for quite some time. OCD will develop such standards recognizing regional differences in the cost-of-living during Fiscal Year 1980-81. The process will involve representatives from all types of agencies and programs; therefore, such in-depth field participation will require an eight to ten month time line for development.

3. "Finally, in view of the confusion regarding the priority to be placed on cost-standards in relation to other considerations in awarding 1979-80 expansion funds, the Legislature may wish to clarify the priority of this area in any future appropriations for expansion of child care and development programs."

OCD concurs whole-heartedly with the Auditor General's recommendation. Not only do the various funding considerations need to be given priority rankings, but terms such as "cost-effectiveness" must be clearly defined.

Sincerely,



William D. Whiteneck
Deputy Superintendent of Administration
(916) 445-8950

ALLOCATION OF CHILD CARE EXPANSION FUNDS

As requested in the Budget Act, we reviewed the allocation of child care expansion funds. The Budget Act allowed considerable flexibility to OCD for funding various categories of child care programs as long as particular age groups were served with the designated amounts of funding. After meeting the minimum requirements specified for the migrant, campus, and school-age parenting and infant development programs, \$3,744,985 of expansion funds remained available to allocate to general, alternative, or any other child care programs as long as intergenerational programs were funded in at least two counties, with a maximum expenditure of \$192,000. OCD chose to exceed minimum funding levels for the migrant and campus child care programs.

The following table compares Budget Act directives for allocating funding requirements with OCD allocations in five general areas: (1) age of children served, (2) program priorities, (3) geographic area, (4) types of providers, and (5) other funding requirements.

<u>Amount of Allocation Required in the Budget Act</u>		<u>Amount of Allocation Made by OCD</u>	
(1) Age of Children Served			
Dollars to be used for expansion of child care services to children not currently served; funding amounts were designated by age group.		Allocations were made to agencies for which data in applications indicated that programs were for children not currently served (based on waiting lists and needs assessment documents).	
Infants	\$2,056,477	Infants	\$1,695,023
Pre-school	\$1,113,925	Pre-school	\$ 785,638
Extended Day	\$ 771,179	Extended Day	\$ 648,446
		Resource and Referral and County Welfare Programs*	\$ 619,967

* Resource and referral and county welfare programs serve children in infant, pre-school and extended day care age groups. Thus a portion of the funding served each age group. OCD did not identify what portion of funding went to each age group.

Amount of Allocation Required
in the Budget Act

Amount of Allocation
Made by OCD

(2) Program Priorities

Campus and migrant child care programs to receive a proportionate funding increase at least equal to current funding levels.

OCD chose to direct more funds into these programs as permitted by legislation.

Campus	\$ 92,233*
Migrant	\$104,263*

Campus	\$339,293
Migrant	\$452,870

School-age parenting and infant development	\$514,120
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School-age parenting and infant development	\$514,627
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Intergenera- tional	\$192,000**
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Intergenera- tional	\$192,000
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(3) Geographic Area

Rural areas to receive fair share.

OCD did not compute a specific "fair share" of dollars to go to rural areas. It did, however, address this issue by directing more dollars than required into migrant programs, which are located in rural areas. It also funded unserved areas with resource and referral programs, most of these being in rural areas.

* Funding requirements for campus and migrant child care programs were computed based upon their current funding levels.

** Chapter 974, Statutes of 1979, mandated that funding for intergenerational child care projects shall not exceed \$192,000.

Amount of Allocation Required
in the Budget Act

Amount of Allocation
Made by OCD

(4) Types of Providers

Priority to campus child care programs coordinating activities with college development training programs.

All campus programs funded were operated by colleges in conjunction with child development training programs.

Information and referral agencies to be considered eligible to receive funds.

Sixteen resource and referral programs received funding.

Wide range of local providers; reflection of local level needs, diversity, and resources.

The final funding awards went to a range of local providers, e.g., family day care homes, vendor payment agencies, resource and referral agencies, school districts, county welfare departments, migrant centers, college campuses, etc.

(5) Other Funding Requirements

Cost-effective programs.

Asked agencies for information indicating cost-effectiveness (i.e., use of other sources of income and outside resources).

Limit allocations to pro rata share of annualized funding amounts.

Only seven months of funding or \$2,587,945* was allocated due to a December 1, 1979 start-up date. The remaining \$1,675,756* will not be allocated.

* These amounts do not include \$192,000 of expansion funds for Intergenerational Programs that were allocated separately in accordance with Chapter 974, Statutes of 1979 (AB 1496).

DISTRIBUTION OF EXPANSION FUNDS

We reviewed information on the distribution of expansion funds to new agencies and to agencies previously funded and expanding their services. Additionally, we examined the allocation of funds to rural and urban agencies. Table 1 displays this information.

TABLE 1

ANALYSIS OF APPLICATIONS RECEIVING
EXPANSION FUNDING AWARDS

Expansion Funding to New and Existing Agencies

<u>Type of Applicant</u>	<u>Number of Applications Receiving Funding</u>	<u>Amount of Funding</u>
Agencies Previously Funded by OCD*	78	\$3,304,686
Agencies Not Previously Funded by OCD	<u>15</u>	<u>959,015</u>
Total	<u>93</u>	<u>\$4,263,701</u>

Expansion Funding to Rural, Suburban, and Urban Agencies

<u>Location of Applicant</u>	<u>Number of Applications Receiving Funding</u>	<u>Amount of Funding</u>
Rural Agencies	40	\$1,687,339
Suburban Agencies	14	671,635
Urban Agencies	<u>39</u>	<u>1,904,727</u>
Total	<u>93</u>	<u>\$4,263,701</u>

Table 1 shows that 15 of the 93, or 16 percent of the applications funded were from agencies which did not previously receive OCD funding. These agencies received \$959,015 or 22 percent of the total funds distributed. Rural agencies received \$1,687,339 in expansion funds, or approximately 40 percent of the funds allocated.

* Some of the applications from these agencies were for programs which were not funded in the past. Data was not available at the time of our review to identify these programs.

CHILD CARE AND DEVELOPMENT PROGRAMS IN CALIFORNIA

Programs administered by the State Department of Education, Office of Child Development, are funded by a combination of Federal and State General Funds, or either Federal or State funds alone. The regulations which apply to each program type are determined by the source of funding and population to be served. The purpose of this overview is to briefly describe each program type.

General Child Development

General child development programs are either Federally or State-funded. They provide a full array of program components: Educational Activities, Parent Education, Health Services, Nutrition, Social Services, Staff Development, Evaluation, and Special Needs of Children and Families. The mode is usually center-based, but some agencies are funded for family child care homes. The purpose of the program is to provide an environment conducive to the optimal development of children 0-14 years of age while their parents are working or in training. Eligible families are those receiving Aid for Dependent Children, and those low-income families in which parents work or are in training. Staffing is determined for Federally funded programs by the Federal Interagency Day Care Requirements; for State funded programs, by Title 5 of the California Administrative Code.

Migrant Child Development

Migrant Child Development Programs are seasonal programs located primarily in government subsidized housing units within the various agricultural counties in California. The State Department of Education administers these programs under the terms of annual interagency agreements with units within the Health and Welfare Agency. The centers are open for varying lengths of time during the year depending upon the harvest in the area in which the housing unit is located. The programs provide the same components as General Child Development programs, and follow the standards of Title 5, California Administrative Code, for staffing ratios.

Campus Child Development

These programs are intended primarily to care for the children of students on two-year and four-year college or university campuses. In addition, they frequently serve as training sites for students enrolled in child development programs at the college. The program components are the same as in General Child Development programs, and staffing ratios are determined by Title 5, California Administrative Code.

School-Age Parenting and Infant Development

School districts or County Offices of Education are funded to establish programs for the children of secondary school parents. Located on or near the high school campuses, these programs provide an infant/toddler development center, special counseling, parenting education, and career development opportunities for parents while they finish their high school program.

Alternative Child Care

Alternative Child Care Programs are funded to test alternatives which could potentially reduce child care costs, to provide a broad range of choices for parents needing subsidized services, and to address unmet child care needs throughout the state.

Alternative Child Care consists of four program types or services: center-based child care, some with satellite homes; family child care homes, some with support services; vendor payment programs based on parental choice in the community; and resource and referral centers which coordinate community resources in order to provide services to parents and providers. Resource and referral programs do not provide actual child care subsidies. These programs are state funded. Privately operated centers and child care homes that receive vendor or voucher payments through the Alternative Child Care Program are licensed by the State Department of Health. The standards which pertain to Alternative Child Care Programs are contained in Title 22 of the California Administrative Code.

Source: Department of Education, Office of Child Development.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
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